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SENSITIVE
SIPDIS

EEB FOR A/S SULLIVAN
SPECIAL ENVOY FOR EURASIAN ENERGY GRAY
EEB FOR ENERGY COORDINATOR MANN
EUR FOR DAS BRYZA

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11. (SBU) Summary: On October 30 and 31 a high-level USG delegation led by Acting Deputy Secretary of Energy Jeffrey Kupfer discussed Turkey's energy needs and U.S. suggestions on ways to help facilitate investment in Turkey's energy sector with senior Government of Turkey (GOT) officials (reftels) as well as with the Turkish private sector, U.S. companies and representatives from international financial institutions. The corporate response to the U.S. suggestions was quite positive. IFC and EBRD representatives believe the areas of energy efficiency and renewables offer the best opportunities for effective cooperation with their institutions and look forward to meeting with OPIC to discuss ways to facilitate cooperation. End Summary.

12. (SBU) This message reports delegation meetings with representatives from the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and the Banks Association of Turkey as well as with the American Chamber of Commerce, international and Turkish energy companies and Turkish companies active in the renewable energy sector.

Potential Financing Sources - The IFC and EBRD

13. (SBU) OPIC President Mosbacher accompanied by Special Envoy for Eurasian Energy Gray met on October 30 with IFC Director for Southern Europe and Central Asia Shabbaz Mavaddat and Southern Europe and Central Asia Regional Manager for Infrastructure Morgan Landy. Mosbacher described the U.S. goals for supporting diversification of energy sources and encouraging new investment and financing options. According to Mavaddat, the IFC has USD 1.5 billion invested in Turkey, with almost USD 700 million of that total invested since 2007. The IFC is currently reviewing USD 400 to 600 million in potential new investments, with much of this in the energy sector. However, the outlook for energy sector investment finance outside this initiative is somewhat bleak due to the on-going global credit crunch. Landy indicated the Turkish corporate sector is already suffering from the liquidity squeeze and is struggling to maintain adequate working capital as banks tighten credit.

¶4. (SBU) Energy sector privatization is difficult in this environment, particularly as the GOT no longer offers sovereign guarantees and pricing has not been fully rationalized, Landy explained. He argued that the market has changed, and the GOT needs to adapt, offering more flexibility and tools, in order to attract bidders who can get financing and close a deal. Mosbacher indicated that this was an area in which OPIC and EXIM could play a role and wanted to accelerate the financing process. The World Bank, through the IFC, is already trying to identify energy efficient projects for investment, Landy noted. State-owned plants are unlikely to upgrade in advance of privatization. In the meantime the GOT could offer incentives to encourage home and business owners to invest in energy efficient projects but must be careful to ensure that these projects do not become a financial burden, he cautioned. Mavaddat indicated the IFC would be interested in working with other IFIs on energy efficiency projects. OPIC, in partnership with the U.S. Treasury, will work to convene a meeting focused on ways OPIC, the IFC and other IFIs can work together on energy efficiency projects.

¶5. (SBU) Immediately following the IFC meeting, the U.S. delegation met with EBRD Chief Economist Eric Berglof to discuss potential areas in which the USG could work with the EBRD to facilitate investment in Turkey's energy sector. Berglof indicated that the GOT is most interested in EBRD support in four areas: small and medium enterprises, underdeveloped areas of the country, agribusiness, and energy efficiency. Mosbacher noted U.S. interest in cooperating with the EBRD in the area of energy efficiency and support for renewable energy projects and explained the USG planned

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to send a team of technical experts to Turkey in December to identify and prioritize potential projects. He invited the EBRD to participate in a meeting convened by the USG to bring international financial institutions together to discuss opportunities in this area. Berglof welcomed the concept of a focused meeting to address this area.

Corporate Perspectives

¶6. (SBU) At an October 30 lunch hosted by the American Business Forum in Turkey (ABFT), one of two Turkish-American chambers of commerce, OPIC and TDA heard from U.S. energy companies and financial institutions about the business climate for foreign investment and financing of all types of energy projects. U.S. companies support the idea of a TDA technical mission - the GE representative hopes the USG can advise the GOT on how to conduct the next nuclear plant tender. The CEO of AES' joint venture hydro project in Turkey complained the GOT would neither relinquish sufficient control of projects nor provide sovereign guarantees. The lack of predictability combined with the high cost of preparing a bid makes it nearly impossible for companies to move forward on major projects. He observed that most wind power licenses are awarded to companies that are not competent to complete such projects, nor are in a position to raise the necessary financing. These licenses will be sold at market prices, which he estimated as starting at \$30 million.

¶7. (SBU) The USG delegation met October 31 with Bankers Association Chairman Ersin Ozince, Secretary-General Ekrem Keskin, and board members representing 80% of Turkey's banking market, including the commercial, foreign, private, and development sectors. Ozince noted that Turkey's banking sector is stable, has modern infrastructure, follows the highest banking standards, and is committed to full implementation of Basel II risk and capital management recommendations. The US delegation explained the USG's interest in promoting diversification of Turkey's energy sources willingness to offer financing and other guarantees to attract U.S. investment to the sector. Ozince and the

bank officials welcomed the USG's offer, agreeing that Turkey needs serious investment in energy diversification. Turkish banks have financed numerous hydrocarbon sector projects for the past 10-15 years, as well as energy production projects in hydropower and other renewable energy sources, but to provide enough power generation capacity significantly more medium- and long-term financing resources are needed. A number of banking reps called for creation of a joint facility or group of ECAs willing to provide long-term financing specifically for long-term projects like pipelines. Ozince thanked the USG delegation, and encouraged Turkish banks to explore financing options with EXIM, OPIC, and TDA.

¶18. (SBU) On October 31, the delegation met with 25 Turkish company representatives of the Energy Working Group of the Turkish Industrialists and Businessmen's Association (TUSIAD.) TUSIAD member companies made presentations on various aspects of the Turkish energy sector. Turkish firms are particularly eager to identify U.S. investors. Mosbacher encouraged them to put together a road show to reach out directly to U.S. companies, perhaps with help from USDOC and TDA. In a separate meeting with the U.S. delegation, Sabanci Energy Group Chairman Selahattin Hakman and CFO Ozlenen Aydin warmly welcomed Mosbacher's offer of up to USD 500 million in OPIC support for investment in Turkey's energy sector. Hakman was focused on the need to increase electricity generation capacity and was not engaged on energy efficiency and renewables.

¶19. (SBU) Also on October 31, the delegation met with representatives of three renewable power industry organizations, primarily representing hydro and wind power. The consensus from company representatives was that for the foreseeable future, in the absence of more aggressive GOT incentives and the recent drop in oil prices and thus demand for alternative sources of power, financing for wind power would be difficult. Another spur for the development of

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renewables would be for Turkey to become a member of the Kyoto Protocol's Second Commitment Period, beginning in 2012 and/or to become a full member of the European Electricity Community. Companies also noted the lack of domestic manufacturing capacity for equipment, especially turbines.

¶10. (U) The Delegation has cleared this cable.
WIENER